ENERCHEM INTERNATIONAL INC.

Annual Report 2007

Enerchem International Inc.

is a manufacturer and distributor of hydrocarbon drilling and fracturing fluids designed to provide cost effective solutions to the upstream oil and gas industry and specialty solvents to help resolve production and processing problems to the downstream producers. The Company also provides energy marketing services and, through its wholly-owned subsidiary company, Millard Trucking Ltd., provides fluid transportation and other related oilfield services. The Company's common shares trade on the Toronto Stock Exchange under the symbol "ECH".

Our Mission Statement

Enerchem strives to be the manufacturer of choice for the supply of hydrocarbon solvents, drilling and fracturing fluids to the oil and gas industry. Our goal is to consistently meet or exceed our customers' expectations for the quality of our products and services in a safe and environmentally conscientious manner.

We are committed to a culture that is based on sound business ethics focused on enhancing shareholder value.

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ENERCHEM
INTERNATIONAL INC.

Financial Highlights

Results of Operations

For the years ended December 31	**2007**	2006
	$	$
Revenues	**80,299,785**	107,746,214
Net (loss) earnings for the year	**(4,481,392)**	5,930,576
Net (loss) earnings per share		
Basic	**(0.29)**	0.39
Diluted	**(0.29)**	0.39
EBITDA (1)	**4,072,760**	10,355,875
EBITDA per share (2)	**0.27**	0.68

Financial Position

Total assets	**64,925,541**	68,554,555
Working capital (3)	**15,991,041**	20,650,126
Purchase of property, plant and equipment	**9,118,062**	7,445,814
Total long-term debt (4)	**-**	171,477
Shareholders' equity	**51,843,738**	56,053,597
Number of shares		
Outstanding, end of year	**15,253,107**	15,295,307
Average, during the year (5)	**15,292,735**	15,171,836

(1) represents earnings before interest expense, taxes, depreciation, amortization, accretion expense and write-downs.

(2) calculated as EBITDA divided by the basic weighted average number of shares outstanding during the year.

(3) calculated as current assets less current liabilities.

(4) excludes current portion of long-term debt.

(5) represents the basic weighted average number of shares outstanding during the year.

President's Message

To Our Shareholders,

On behalf of the Board of Directors of Enerchem International Inc., I would like to report the operational and financial results for the fourth quarter and year ended December 31, 2007.

Oilfield activity levels in the Western Canadian Sedimentary Basin ("WCSB") and overall industry conditions provided a challenging business climate for oil and gas service companies in 2007. Much of the decline in activity levels affecting the WCSB in 2007 was precipitated by the significant build up in North American natural gas inventories over the past six quarters, which in turn influenced the continuing weakness in natural gas prices to levels that were economically unattractive to support gas drilling programs in western Canada. As a result, overall drilling rig utilization rates averaged 42% in 2007 compared to 55% in 2006. Adding more uncertainty late in 2007 was the announcement of the new Alberta Royalty Program which had the effect of curbing oilfield activity in Alberta during the fourth quarter.

The effect of the foregoing largely contributed to the 25% decline in the Company's consolidated revenues in 2007 to $80,300,000 from $107,746,000 in 2006 and net loss for the year ended December 31, 2007 of $4,481,000 compared to net earnings of $5,931,000 in 2006. The Company's net loss in 2007 included a goodwill impairment of $6,050,000 which resulted from management's assessment of the impact of reduced oilfield activity levels, the industry's expectations of significantly reduced activity levels in 2008 and the overall decline in the Company's market capitalization.

For the three months ended December 31, 2007, consolidated revenues increased by 4% to $25,133,000 from $24,199,000 for the same period last year and net earnings for the fourth quarter of 2007 were $643,000 compared to $373,000 for the comparative quarter in 2006. For the fourth quarter of 2007, net earnings benefited from a future income tax recovery associated with substantively enacted Canadian federal tax reductions.

Strategic Initiatives

Over the past months, we have directed significant resources and capital to make the necessary infrastructure and plant optimization improvements focused on aligning our operations to the achievement of our strategic goals.

In Slave Lake, the desalter has been installed at the refinery and we anticipate that commissioning will be completed prior to the end of the first quarter of 2008. The desalter will provide the benefit of reducing the flow of impurities, found in crude oils, through the refinery and thereby reduce overall repair and maintenance costs at this facility. Our new blending operation located at the Slave Lake refinery has been completed and is also in the final stages of commissioning. We anticipate that the blending facility will be pipeline connected prior to the end of the first quarter of 2008. This project will significantly reduce transportation costs associated with the hauling of by-products from this facility and provide enhanced blending opportunities for the Company's energy marketing business segment.

In Sundre we successfully completed the construction and commissioning of the flowback cleaning facility. During 2007, while we encountered some minor start-up issues with this facility, we are pleased with the results achieved in connection with the facility's ability to clean and re-cycle used fracturing fluid ("flowback") and the Sundre refinery's ability to use the clean flowback as a crude oil substitute in the manufacture of a premium fracturing fluid.

In addition, the automation of the entire Sundre facility was completed in 2007 contributing to significantly increase finished product yield. In connection with the installation of the new heaters at the Sundre plant, during commissioning the heaters were unable to meet the required operating parameters and as a result we are still in the process of completing this project. The delay in completing this project affected our abililty to fully utilize the refinery for the purpose of processing flowback during January 2008. While the Sundre refinery is currently operating and flowback is being processed through the facility, its production capacity is presently restricted to two of its available three towers. We anticipate the Sundre refinery will be fully operational by mid-year 2008.

Outlook

Industry expectations for activity levels in the WCSB fall in the range of 13,500 to 15,300 wells to be drilled in 2008, compared to the 19,144 wells drilled in 2007. In addition, average rig utilization rates are expected to be at 35% in 2008 compared to 42% in 2007.

This bearish economic outlook for oilfield activity combined with current industry conditions has created a very aggressive competitive landscape dominated by substantial pressures on pricing. As a result, we anticipate that 2008 will be as challenging as the past year.

However, in 2008, we will be closer to achieving certain of our fundamental business strategies which we anticipate will contribute to improve our overall performance and competitive capabilities in a year where the business environment may be less favourable than in previous years. Notwithstanding, we continue to maintain a strong balance sheet with a focused management team and are well positioned to take advantage of opportunities that may develop.

Acknowledgements

I would like to thank our Board of Directors for their guidance, our shareholders for their support and our employees for their commitment, innovation and dedication to the success of Enerchem.

Douglas F. Robinson
President and Chief Executive Officer

Management's Discussion and Analysis ("MD&A")

The following discussion and analysis of Enerchem International Inc. ("Enerchem" or the "Company") for the year ended December 31, 2007 should be read in conjunction with the audited annual consolidated financial statements, including the accompanying notes and supplemental material contained in other parts of this Annual Report and the Company's Annual Information Form. This MD&A focuses on key statistics from the financial statements of the Company and pertains to known risks and uncertainties relating to the oilfield services industry in the Western Canadian Sedimentary Basin ("WCSB") where the Company operates. This discussion should not be considered all inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and the Company's website at www.enerchem.com. This MD&A was prepared effective March 17, 2008.

Forward Looking Statements

Certain statements contained in this Annual Report, including statements contained in this MD&A, that are not historical facts may be considered "forward looking statements." Forward looking statements are often identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "potential", "targeting", "intend", "could", "might", "should", "believe", and similar expressions. Such statements are based on current expectations that involve risks and uncertainties which could cause actual results to differ from those anticipated. Important factors that can cause anticipated outcomes to differ materially from actual outcomes include, but are not limited to, the impact of general economic conditions, industry conditions, competition from other industry participants, volatility of petroleum prices, the ability to attract and retain qualified personnel, changes in laws or regulations, currency fluctuations, continued ability to access capital from available facilities and environmental risks. The Company believes that the expectations reflected in those forward looking statements are reasonable but no assurances can be given that these expectations will prove to be correct and such forward looking statements included in this Annual Report should not be unduly relied upon. These forward looking statements are made as of the date hereof and the Company assumes no obligation to update or revise them to reflect new events or circumstances. References in this MD&A to "Enerchem", "Company", "us", "we", and "our" mean Enerchem International Inc.

Use of Non-GAAP Measures

This MD&A contains references to certain financial measures that do not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles ("GAAP"), and may not be comparable to similar measures presented by other companies or trusts. These measures are provided to assist investors in determining the Company's ability to generate cash from operations and to provide additional information regarding the use of its cash resources. These financial measures are identified below:

- EBITDA represents earnings from operations before interest expense, taxes, depreciation, amortization, accretion expense and write-downs. It is used by management internally to measure the performance of the business as a whole. EBITDA is presented as supplemental information because management believes it is a widely used financial indicator of the Company's operating profitability and performance before the effects of capital investment and financing decisions.
- Return on average capital employed ("ROACE") is a non-GAAP measure which the Company has defined as the ratio of earnings before income taxes and interest on debt to average capital assets.
- Cash provided by operations is derived from the Company's consolidated statement of cash flows and represents cash provided by operating activities before changes in non-cash components of working capital. Cash provided by operations is provided as supplemental information because management believes it provides investors with additional information regarding the Company's ability to generate funds to finance operations and its capital requirements.
- EBITDA per share represents EBITDA divided by the basic weighted average common shares outstanding.

Overview of the Company's Operations

Enerchem is a manufacturer of hydrocarbon drilling and fracturing fluids, designed to provide cost effective solutions to the upstream oil and gas industry, and specialty solvents which are designed to help resolve production and processing problems encountered by downstream producers. The Company's proprietary fracturing and drilling fluids and specialty solvents ("Fluids") are manufactured through its facilities located in Sundre and Slave Lake, Alberta and are distributed through its network of sales and service representatives. During the third quarter of 2004, the Company diversified its operations with the establishment of its Energy Marketing group. This diversification was precipitated to maximize value received by the Company for its hydrocarbon by-products, provide energy marketing management and expertise and, to mitigate in part, the Company's exposure to the seasonality of its operations. On May 1, 2006, the Company acquired all of the outstanding common shares of Millard Trucking Ltd. ("Millard"), a privately owned company based in Sundre, Alberta, that provides transportation services and other oilfield services to the oil and gas industry. The operations of the Company are conducted entirely within the WCSB.

The Company's activities are divided into three distinct business segments:

- *Oilfield Services,* which represents the manufacture and sale of hydrocarbon products;
- *Energy Marketing,* which represents the purchasing, gathering and marketing of petroleum for resale to refiners and other customers; and
- *Transportation Services,* which represents the operations of Millard.

Our customers include large multi-national and independent oil and gas producers, as well as smaller independent producers and the major land based drilling contractors with operations in the WCSB. The primary factor influencing demand for our products and services is the level of drilling and workover activity in the WCSB, which in turn, depends on current and anticipated future oil and gas prices and the levels of cash flows allocated by the industry to drilling and workover activities. As a result, demand for our products and services is cyclical and substantially depends on oilfield activity levels in the WCSB and is highly sensitive to current and expected oil and natural gas prices. Drilling and well service rig counts and rigs utilized by depth are leading indicators of anticipated demand for the Company's products and services. The Company's drilling and fracturing fluids provide cost effective solutions for deep well drilling and workover activities that are at well depths greater than 1,850 metres. The following table summarizes average WCSB drilling and well service rig activity and historical commodity prices:

Selected Benchmarks (1)	**2007**	2006	2005
Wells drilled per year (#)	**19,144**	22,127	21,925
Drilling rig utilization rates (%)	**42**	55	58
Average rigs utilized by depth			
- less than 1,851 metres (%)	**43**	39	42
- greater than 1,850 metres (%)	**57**	61	58
Crude Oil - West Texas Intermediate - year average (US$ per bbl)	**72.41**	66.25	56.70
Natural Gas - AECO - year average (Cdn$ per Mcf)	**6.45**	6.54	8.79
Canada to U.S. exchange rate - year average (Cdn$ per $1.00 USD)	**1.07**	1.13	1.21

(1) Source: First Energy Capital Corp. and Canadian Association of Oilwell Drilling Contractors. All historical averages have been computed using weekly data only.

Business Strategy

Enerchem's distinct business advantage is that its facilities, situated in Alberta, are dedicated to providing a diversified range of proprietary hydrocarbon fluids that achieve consistency in product quality and are designed to meet oil and gas processing and production requirements common to the WCSB. The Company wants to capitalize on its position and to provide above average returns on investment to its shareholders. To accomplish this, the Company's business strategy is focused on:

- Becoming a low cost producer of quality Fluids that provide the best customer value;
- Establishing a more consistent revenue base facilitating stable earnings during seasonal slowdowns in oilfield activity;
- Optimizing its infrastructure and facilities capabilities to capture identified market opportunities and provide competitive advantages; and,
- Identify and acquire complementary businesses that are accretive and provide substantial opportunities for growth.

A substantial component of the Company's future organic growth and profitability is incumbent on its continued ability to successfully market and maximize value received for its Fluids and by-products. This success hinges on the Company's ability to: secure sufficient quantities of crude oil ("feedstock") for its production requirements to meet customer demand; minimize logistical problems common to plant operations; maintain cost effective transportation methods; and, its ability to reflect the underlying value of its products to the retail markets. To accomplish this, the Company's business strategy is focused on:

- Securing favourable long-term feedstock arrangements providing opportunity to maximize the Company's production capabilities;
- Optimizing the capabilities of its manufacturing processes and internal know-how;
- Optimizing its fluid transportation arrangements and infrastructure;
- Optimizing its business opportunities and operating synergies available through its energy marketing capabilities.

Key Performance Drivers

Enerchem believes the following key performance drivers are critical to the success of the business:

- Hydrocarbon prices, which influence the capital expenditure programs and resulting oilfield activity levels of exploration and development companies in the WCSB;
- Weather, which affects the Company's ability to operate in key locations of the WCSB;
- Access to, and retention of, qualified personnel;
- Access to hydrocarbon feedstocks compatible with the Company's plant processing and product quality requirements;
- Expectations of its customers regarding oil and gas exploration and development prospects in the WCSB;
- A continued ability to offer competitive product pricing;
- Continued access to terminalling facilities required by the Energy Marketing segment to accommodate the delivery of its by-products and the purchasing, gathering and marketing of petroleum for resale to refiners and other resellers; and,
- Effective utilization of the Company's fractionation plants and flowback facility.

The Company monitors and assesses its performance relative to the key performance drivers it believes are critical to measuring its success to the implementation of its strategy and the achievement of its goals and vision.

Some of the Company's key financial performance indicators and results against those indicators for its operations are set out below:

Key financial performance indicators:

At December 31	**2007**	2006
Total revenue growth	**(25)%**	(1)%
EBITDA	**$4,072,760**	$10,355,875
Net (loss) earnings per common share, basic	**$(0.29)**	$0.39
Return on average capital employed ("ROACE")	**2.7%**	14.5%

EBITDA and ROACE are non-GAAP measures and are defined by the Company under the section "Use of non-GAAP Measures" in this MD&A.

In addition, the Company has key operating performance indicators that include but are not limited to: market share, product profitability, product quality and assurance, plant productivity, productivity improvements and waste reduction and operating and administrative cost management.

Capability to Deliver Results

Non-Capital Resources

People are the most critical non-capital resource required in order for the Company to achieve its goals set out in its strategic plan. A formal human resource plan has been implemented in order to ensure the Company focuses on improving and maintaining its employee morale. The Company is continually evaluating its human resource levels to determine if levels are adequate and adequately trained to meet its business requirements. The Company believes that it presently has sufficient human resources to successfully operate its business and to execute its strategic plan.

Capital Resources

The Company has the necessary working capital to meet its current obligations and commitments. The Company maintains a fleet of leased field service vehicles and leased premises which represent its off- balance sheet financing arrangements. During 2007, the Company used cash flows from its operating activities to fund its capital projects in Sundre and Slave Lake, Alberta. In order to finance future capital expenditure obligations and future growth, Enerchem anticipates financing its activities through a combination of available cash and cash equivalents, cash flow from operations and, when necessary, utilizing its existing credit facilities. Due to the long term nature of its assets and its historical cost of capital, the Company believes that it must provide an annual return of 10% to 15% on average capital employed over the life of its asset base in order to be financially accretive for shareholders and to minimize Enerchem's cost of capital.

Systems and Processes

The Company's operational systems and processes are continuously reviewed by management. During 2007, the Company continued to assess and, where appropriate, modify its compensation system to ensure market competitiveness and to align its human resources to the attainment of the Company's strategic objectives. The Company also continues to evaluate and implement methods and infrastructure to facilitate increased productivity of its fractionation plants in Slave Lake and Sundre and continues to evaluate processes that will contribute to reduce overall feedstock costs. The foregoing systems and process modifications will align the Company to execute its strategic plan.

Seasonality of Operations

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in western Canada and the duration of this "spring break-up" has a direct impact on the Company's activity levels. In addition, exploration and production in many of the northern regions of the WCSB are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

Selected Annual Information

Selected annual financial information derived from the audited financial statements for the three most recently completed financial years is set forth below and is prepared in accordance with generally accepted accounting principles in Canada:

For the years ended December 31	**2007**	2006	2005(1)
	$	$	$
Revenues	**80,299,785**	107,746,214	109,132,279
Net (loss) earnings from continuing operations	**(4,481,392)**	5,930,576	3,884,508
Net (loss) earnings per share from continuing operations			
Basic	**(0.29)**	0.39	0.26
Diluted	**(0.29)**	0.39	0.26
Net (loss) earnings from continuing operations	**(4,481,392)**	5,930,576	3,884,508
Net earnings from discontinued operations (1)	**-**	-	4,290,230
Net (loss) earnings for the year	**(4,481,392)**	5,930,576	8,174,738
Net (loss) earnings per share			
Basic	**(0.29)**	0.39	0.55
Diluted	**(0.29)**	0.39	0.55
EBITDA, continuing operations (2)	**4,072,760**	10,355,875	6,974,289
EBITDA per share, continuing operations (3)	**0.27**	0.68	0.47
Total assets	**64,925,541**	68,554,555	73,921,005
Cash provided by operations (4)	**4,562,956**	8,664,692	6,290,067
Cash and cash equivalents	**2,711,136**	2,413,522	10,974,739
Total long-term financial liabilities	**-**	171,477	1,832,276

(1) *On December 31, 2005, the Company sold its specialty chemical operations which included inventories and property, plant and equipment associated with these operations. The net gain on the sale of the discontinued operations amounted to $3,747,000 after income taxes of $1,484,000. Revenues from its discontinued operations were excluded from total revenues in the amount of $15,789,000 for 2005. Net earnings from discontinued operations were $543,000 in 2005.*

Items (2), (3) and (4) above are non-GAAP measures and are defined by the Company under the section "Use of non-GAAP Measures" in this MD&A.

Oilfield activity levels in the WCSB and overall industry conditions provided a challenging business climate for oil and gas service companies in 2007. Much of the decline in activity levels affecting the WCSB in 2007 has been precipitated by the significant build up in North American natural gas inventories over the past six quarters, which in turn has influenced the continuing weakness in natural gas prices to levels that are economically unattractive to support gas drilling programs in western Canada. Drilling in the WCSB is predominantly focused on natural gas activities. As a result, overall drilling rig utilization rates averaged 42% in 2007 compared to 55% and 58% in 2006 and 2005, respectively. Drilling rig utilization rates reflect an industry benchmark measure of oil and gas activity. Adding more uncertainty late in 2007 was the announcement of the new Alberta Royalty Program which had the effect of curbing oilfield activity in Alberta during the fourth quarter.

Consequently, the Company's consolidated revenues decreased by 25% in 2007 when compared to 2006 and declined by 26% when compared to 2005. The Company recorded a net loss for the year ended December 31, 2007 of $4,481,000 compared to net earnings of $5,931,000 in 2006 and $8,175,000 in 2005. The Company's net loss in 2007 included a goodwill impairment of $6,050,000 which resulted from management's assessment of the impact of reduced oilfield activity levels, the industry's expectations of significantly reduced activity levels in 2008 and the overall decline in the Company's market capitalization. The Company's net earnings in 2005 included net earnings of $4,290,000 associated with its discontinued operations.

Acquisition

On May 1, 2006, the Company acquired all of the outstanding common shares of Millard Trucking Ltd. and J.D.M. Trucking Ltd. ("Millard") for an aggregate purchase price of $3,265,000.

Millard is a Sundre, Alberta based company involved in providing transportation services to the oil and gas industry. The operations of Millard Trucking Ltd. and J.D.M. Trucking Ltd. were amalgamated effective May 12, 2006 and have been continued under the name of Millard Trucking Ltd., as a wholly owned subsidiary of Enerchem. The results from operations of Millard are included in the Transportation Services segment.

This acquisition has been accounted for by the purchase method and the results of operations have been included in these consolidated financial statements from the date of acquisition. The cost of the purchase has been allocated to the acquired assets based on their estimated fair values at the date of the acquisition. Details of the acquisition are as follows:

As at May 1, 2006	$
Current assets	2,707,614
Property and equipment	4,521,000
Total assets acquired	7,228,614
Current liabilities	2,421,578
Long-term debt	848,408
Future income taxes	693,628
Total liabilities assumed	3,963,614
Net assets acquired	3,265,000
The consideration was by way of:	
Cash	2,733,000
100,000 common shares	532,000
	3,265,000

The value of the 100,000 common shares issued was determined based on the simple average of the closing prices of Enerchem's common shares on the Toronto Stock Exchange for the period near the date of acquisition.

Divestiture

During 2007, the Company sold its 25% interest in the Egyptian Canadian Company for Chemicals Industries – F.Z. ("ECC"), for total proceeds of $750,000 U.S. ($826,000 Cdn.), less transaction fees of $2,278 U.S., to a privately held Egyptian company based in Cairo, Egypt. During 2007, the Company recorded a $58,000 (December 31, 2006 - $230,000) write down in respect of the carrying value of its Egyptian investment. The sale completed the disposition of the Company's investment in ECC.

Results of Operations – Annual Review

Revenues

Consolidated revenues for the year ended December 31, 2007 decreased by $27,446,000, or 25%, to $80,300,000 from $107,746,000 for the year ended December 31, 2006. The decline in the Company's consolidated revenues in 2007 when compared to 2006 was largely influenced by the sharp drop-off in drilling activity in the WCSB precipitated by the significant build up in North American natural gas inventories over the past six quarters, which in turn has influenced the continuing weakness in natural gas prices to levels that are economically unattractive to support gas drilling programs in western Canada. Adding to the decline in overall oilfield activity levels and the decrease in the Company's revenues in 2007 was the late start up of general industry operations after a prolonged spring break-up which effected the latter part of the first quarter and all of the second quarter in 2007. Revenues by business segment were as follows:

- *Oilfield Services.* Segment revenues decreased by $24,274,000, or 32%, to $51,394,000 in 2007 from $75,668,000 in 2006 primarily due to the decrease in oilfield activity levels combined with the affects of the oil and gas producers overall focus on reducing service costs which has increased competitive pricing pressures. Consequently, during 2007, the Company experienced declines in product selling prices and in the volume of products sold for each of its product lines when compared to 2006.
- *Energy Marketing.* Segment revenues decreased by $6,198,000, or 24%, to $19,225,000 in 2007 from $25,423,000 in 2006 largely as a result of the decline in the Company's activity levels which, in turn, reduced the volume of by-products available for re-sale.
- *Transportation Services.* Segment revenues increased by $3,026,000, or 45%, to $9,681,000 in 2007, excluding inter-segment revenues of $4,557,000, from $6,655,000 in 2006, excluding inter-segment revenues of $3,390,000 and reflect a full year's revenues in 2007 compared to eight months in 2006. Transportation Services revenues averaged $807,000 per month in 2007 compared to average monthly revenues of $832,000 in 2006. The decline in average monthly revenues for the comparative periods resulted from the effects of extended spring break-up conditions in 2007 and a general slow down in industry activity precipitated by the drop off in drilling activities.

Operating Expenses

Operating expenses represent the Company's product and service costs associated with the manufacture and sale of its hydrocarbon products and the execution of its transportation services. In addition, operating expenses include all costs directly related to the support and maintenance of plant and other operating equipment.

Operating Expenses as a Percentage of Consolidated Revenue

For the years ended December 31,	**2007**	2006	Change
	%	%	%
Oilfield Services	**56**	60	(4)
Energy Marketing	**20**	20	-
Transportation Services	**14**	7	7
Total	**90**	87	3

The overall increase in operating expenses as a percentage of revenues largely reflects: the effects of the year over year increase in feedstock costs due to the effects of the increase in crude oil prices during the latter half of 2007; the increase in plant operations and maintenance expenditures associated with the Company's plant turnaround programs combined with one time costs incurred to repair the salt bath heaters and exchangers at the Sundre plant during the first half of 2007; and a full year of Millard operating costs in 2007 compared to eight months in 2006.

General and Administrative ("G&A")

General and administrative expenses include salaries and other related expenses for the Company's administrative, finance, information technology and human resource functions. G&A expenditures increased by $612,000, or 17%, to $4,221,000 in 2007 from $3,609,000 in 2006. These expense increases were largely due to the increase in stock based compensation costs and the full year's G&A expenditures associated with Millard in 2007 compared to eight months in 2006.

Depreciation

Depreciation expense increased by $679,000, or 40%, to $2,357,000 in 2007 compared to $1,678,000 in 2006. The increase in depreciation expense is largely attributable to the Millard assets acquired in 2006 and assets purchased and placed into service throughout 2007. In addition, the increase in depreciation expense is attributable to the commencement of depreciation of the flowback facility that was under construction at December 31, 2006 but completed in 2007.

At December 31, 2007, $1,449,000 of costs associated with the construction of the Company's blend facility and pipeline connection in Slave Lake, Alberta and $2,529,000 of costs associated with the desalter and direct fired heaters projects undertaken in Sundre and Slave Lake have not been depreciated as the projects have not yet been completed and put into use. The completion of the blend facility in tandem with the pipeline connection in Slave Lake will reduce the costs of transporting the Company's by-products. The installation of the direct fired heaters, which will replace the old style salt bath heaters, at the Sundre plant will increase the operational efficiency of the plant by reducing plant maintenance expenditures and facilitate increased finished product yield. At the Slave Lake facility the desalter or water-wash system will also contribute to improve the plant's operating efficiency and provide the plant an effective ability to process a broader range of feedstock. The foregoing projects are scheduled for commissioning and completion during the first quarter of 2008, with exception to the installation of the heaters in Sundre which we anticipate will be completed by mid-year 2008.

Goodwill Impairment

During 2007, management performed its annual evaluation of the carrying value of goodwill and concluded that the goodwill of its hydrocarbon reporting unit was impaired. In determining the impairment amount, management considered a number of factors including actual operating results, expectations of oil and gas industry activity levels, current market data and the overall decline in the Company's economic value reflected by its share price. As a result, the Company recorded an impairment of $6,049,530, representing the entire amount of goodwill that was being carried on the balance sheet. The goodwill impairment has been recorded as a non-cash charge to income in 2007. The goodwill impairment was recorded in the third quarter of 2007. The goodwill was initially recorded with the acquisition of Trysol Canada Ltd. on March 31, 2001.

Plant Tank Farm Remediation

During 2007, the Company accrued environmental costs of $240,000 related to the clean-up of its tank farm in Sundre, Alberta. The $240,000 is an estimate of the expected costs and the Company is in the process of gathering third party quotations for the clean-up work. The Company carries insurance against such risks and anticipates that a portion of the environmental costs may be covered by insurance.

Income Taxes

The provision for income taxes in 2007 includes current taxes of $748,000 compared to $2,542,000 in 2006. The decrease in current taxes in 2007 when compared to last year resulted from the reduction in earnings during 2007.

The effective rate in 2006 was 28%, but in 2007 is less than 1%. The unusual rate for 2007 is a combination of two significant items. The reduction in the future tax rates resulting from recent substantively enacted changes in the Canadian Federal income tax rates over the next five years that resulted in a tax recovery of approximately $656,000. The Federal income tax rate reduction effective December 14, 2007, resulted in a combined statutory rate of 32.12% in 2007. This rate is scheduled to be reduced to 25% by 2012. In addition, the 2007 effective rate was impacted by the goodwill impairment which is non-deductible for tax purposes. The tax effect of this was approximately $1,943,000. Upon adjusting the 2007 tax provision for these two items, the effective tax rate is 29% as compared to the effective rate in 2006 of 28%.

Net (Loss) Earnings

For the year ended December 31, 2007, the Company reported a net loss of $4,481,000, or ($0.29) per common share diluted, compared to net earnings of $5,931,000, or $0.39 per common share diluted, for the year ended December 31, 2006. The significant decline in the Company's financial performance in 2007 resulted from: the decline in oilfield activity levels precipitated by the continued weakness in natural gas prices; the impairment in the carrying value of goodwill associated with a previous business acquisition; the extended spring break-up conditions affecting the first and second quarters of 2007; the increase in depreciation expense associated with the acquired Millard assets and subsequent equipment purchases; the increase in plant repair and maintenance costs combined with one-time plant repairs expenditures in Sundre during the first half of 2007; and the effects of the oil and gas producers' overall focus on reducing service costs which combined with the increase in feedstock costs has squeezed margins on products offered by the Oilfield Services business segment.

EBITDA (refer to "Use of Non-GAAP Measures") for the year ended December 31, 2007 decreased by $6,283,000, or 61%, to $4,073,000 from $10,356,000 in 2006. The reduction in EBITDA in 2007 when compared to 2006 was largely influenced by the significant reduction in the Company's earnings for the year.

Liquidity and Capital Resources

In 2007, the Company generated $4,563,000 in cash provided by operations compared to $8,665,000 in 2006. The decrease was the result of the decline in operating earnings. The Company's working capital was $15,991,000 at December 31, 2007 compared to $20,650,000 at December 31, 2006. The decrease in working capital in 2007 when compared to last year is largely due to the Company's use of funds for capital projects at its plants and equipment purchases for Millard. In 2006, the Company used its cash resources to repay bank indebtedness and its long-term debt obligations under a credit facility with the bank and to acquire Millard. The Company's current ratio (defined as current assets divided by current liabilities) was 2.8 to 1 at December 31, 2007 compared to 3.7 to 1 at December 31, 2006.

In 2007, the Company maintained its bank operating line of credit at $5,500,000, subject to margining requirements, to finance its working capital requirements, and maintained its bank guarantee facility at $10,000,000 to accommodate feedstock arrangements and purchase commitments with its suppliers. At December 31, 2007 the Company had outstanding bank guarantees of $2,632,500 (December 31, 2006 - $800,000). In addition, the Company has an $8,000,000 demand revolving credit facility that bears interest at the bank's prime rate plus 0.90%, to assist in financing projects undertaken at the Company's facilities and equipment purchases. As at the date of this MD&A, the Company is in compliance with all debt covenants and obligations. The terms of the credit facility with the bank provide that the revolving loans, while repayable on demand by the bank, will not be demanded by the bank unless the Company is in default of its obligations and covenants and if in the opinion of the bank there has been a change in the business, financial condition, operations or conduct of the Company. The Company believes that it has sufficient liquidity to operate its business and to execute its strategic plan.

In 2007, the Company financed its capital requirements, totaling $9,118,000, utilizing its cash provided by operations. The majority of this expenditure, $7,236,000, was directed to the construction of the flowback facility in Sundre, pipeline acquisition and blend facility construction in Slave Lake, automation and heater upgrades in Sundre and the installation of the desalter at the Slave Lake plant. Funds used in Millard in 2007 were directed to the replacement of tractors, construction of new office facilities and purchase of fixed storage tanks. With the anticipated slowdown in activities in 2008, the Company's capital expenditures in 2008 will be focused on the completion of existing projects at its plants and normal maintenance expenditures which in total is projected at $3,000,000. By comparison, net cash used in investing activities in 2006 totaled $10,378,000 which included: cash expenditures of $2,733,000 for the acquisition of Millard; $7,446,000 for facilities improvement and expansion projects in Sundre and Slave Lake, Alberta; and equipment purchases for Millard. Capital expenditures in 2006 were funded from proceeds received on the sale of the Company's discontinued operations in 2005 and operating cash flows.

Net cash used in financing activities were $392,000 in 2007 compared to $7,145,000 in 2006. Cash used in financing activities in 2007 were directed to the purchase of the Company's common shares under a normal course issuer bid and repayment of all long-term debt. By comparison, in 2006, the Company repaid long-term debt outstanding of $4,596,000 of which $1,548,000 was assumed with the acquisition of Millard.

Summary of Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes the Company's contractual obligations including payments due for each of the next five years and thereafter.

	Payments due by period				
Contractual obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
	$	$	$	$	$
Operating leases (1)	412,172	254,499	157,673	-	-
Commitments and capital expenditures (2)	734,065	734,065	-	-	-
Total contractual obligations	1,146,237	988,564	157,673	-	-

(1) Represents normal operating leases comprised of vehicles, trailers and office space.

(2) Represent agreements with third parties for the construction of new heaters to be installed at the Sundre plant in the amount of $745,900 of which $162,980 is outstanding at December 31, 2007 and the construction and assembly of a crude oil desalter at the Slave Lake plant in the amount of $1,950,000 of which $571,085 is outstanding at December 31, 2007.

In the normal course of business with vendors the Company may become contingently liable for performance under letters of guarantee and credit. In this regard, the Company has arranged a $10,000,000 bank guarantee facility available as security for its feedstock arrangements and purchase commitments. At December 31, 2007 the Company had provided a $2,632,500 letter of guarantee, which terminated in February, 2008, in favour of a supplier for the purchase of petroleum feedstock from that company.

For 2008 the Company expects cash flow from operations and from its sources of financing to be sufficient to meet its contractual obligations and off-balance sheet arrangements.

Share Capital

At December 31, 2007 the Company had 15,253,107 common shares outstanding. In addition, as at December 31, 2007, the Company has reserved 540,000 common shares for issuance under outstanding stock options.

On June 27, 2007, the Company announced a normal course issuer bid to purchase up to 766,465 of its issued and outstanding common shares at the market price at the time of acquisition, beginning on July 3, 2007 and ending on July 2, 2008, or such earlier time as the bid is completed or terminated by the Company. During 2007, the Company purchased 76,200 of its common shares at an average price of $2.74 per common share, including transaction fees, which have been cancelled and returned to treasury. The cost of common shares purchased totaled $209,063 of which $148,030 was recorded as a charge against share capital at the average carrying value of the Company's issued and outstanding common shares, with the balance of $61,033 charged against retained earnings.

Summary of Quarterly Results

The following tables provide selected unaudited financial information relating to the Company's quarterly activities in 2007 and 2006 and are prepared in accordance with Canadian generally accepted accounting principles with respect to the preparation of interim financial statements.

2007

Three month period ended	**December 31**	**September 30**	**June 30**	**March 31**
(unaudited)	**$**	**$**	**$**	**$**
Revenues	**25,133,073**	**19,822,532**	**7,467,779**	**27,876,401**
Net (loss) earnings for the period	**642,814**	**(6,318,781)**	**(648,176)**	**1,842,751**
Net (loss) earnings per share for the period				
Basic	**0.04**	**(0.41)**	**(0.04)**	**0.12**
Diluted	**0.04**	**(0.41)**	**(0.04)**	**0.12**

2006

Three month period ended	December 31	September 30	June 30	March 31
(unaudited)	$	$	$	$
Revenues	24,199,343	29,138,305	22,093,080	32,315,486
Net earnings for the period	373,246	2,036,051	764,844	2,756,435
Net earnings per share for the period				
Basic	0.02	0.13	0.05	0.19
Diluted	0.02	0.13	0.05	0.18

Review of Quarterly Trends

The Company's quarterly financial performance is affected by the level of overall oilfield activity, which is broadly measured by drilling rig utilization rates and the number of well completions in the WCSB, and seasonal swings in activity due to the affects of extended spring break-up conditions or unseasonably wet or cold weather conditions. The impact of unfavourable oilfield activity levels essentially produces the basic economic condition of industry supply exceeding industry demand (or more competing for less) which thereby creates a very aggressive competitive landscape dominated by substantial pressures on pricing.

The Company's quarterly financial performance in 2007 when compared to the same periods in 2006 was largely affected by significant declines in oilfield activity levels and extended spring break-up conditions.

For example, during the first quarter of 2007, we experienced reasonable sales activities during the first nine weeks of operations in the quarter. However, early spring like conditions during the first part of March precipitated the start of an early spring break-up thereby significantly reducing the Company's business opportunities. During the second quarter of 2007, industry drilling rig utilization rates averaged 17%, representing a 60% decline from

the comparative quarter in 2006 when drilling rig activity average 42%. While spring break-up conditions normally affect April and May activity levels, drilling rig utilization rates in June 2007 were at lows not experienced in over 10 years. These conditions significantly influenced the deterioration of the Company's financial performance in the second quarter of 2007 when compared to the same period in 2006.

The trend in reduced oilfield activity levels when compared to 2006 continued into the third quarter of 2007. Industry drilling rig utilization rates averaged 38% in the third quarter of 2007, representing a 41% decline from the same period last year when drilling rig activity averaged 64%. These conditions combined with the industry's unfavourable outlook for near-term oil and gas activity levels and the overall decline in the Company's economic value as reflected by its share price resulted in the Company recording a goodwill impairment of $6,049,530, representing the entire amount of goodwill carried on the balance sheet. As a result, the Company recorded a net loss of $6,319,000 in the third quarter of 2007 compared to record third quarter earnings in 2006 of $2,036,000.

Exploration and production in many of the northern regions of the WCSB are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. As a result, the fourth quarter normally reflects a period of resurgence in oilfield activity as remote regions become accessible.

Review of Fourth Quarter Results

Consolidated revenues for the three months ended December 31, 2007 increased by $934,000, or 4%, to $25,133,000 from $24,199,000 in the same period last year. The overall increase in consolidated revenues in the fourth quarter of 2007 resulted from a one time opportunity for the sale of crude oil products available to the Energy Marketing segment.

Overall, during the fourth quarter of 2007, industry drilling rig utilization rates averaged 38%, representing a 33% decline from the comparative quarter in 2006 when drilling rig activity averaged 57%. The number of wells drilled on a completion basis declined by 23% to 5,212 in the fourth quarter of 2007 compared to 6,758 during the same quarter last year. Revenues by business segment were as follows:

- *Oilfield Services.* Segment revenues decreased by $1,816,000, or 11%, to $14,807,000 in the fourth quarter of 2007 from $16,623,000 in the same period last year which largely reflected the decline in comparative period oilfield activity levels.
- *Energy Marketing.* Segment revenues increased by $2,850,000, or 60%, to $7,602,000 in the fourth quarter of 2007 from $4,752,000 in the fourth quarter of 2006 through a combination of more favourable pricing arrangements with third party blenders for its by-products and the benefit of a one time opportunity for the sale of crude oil products.
- *Transportation Services.* Segment revenues decreased moderately to $2,724,000, excluding inter-segment revenues of $1,298,000, in the fourth quarter of 2007 from $2,824,000, excluding inter-segment revenues of $1,142,000, in the same period last year. The decline in revenues for the comparative periods resulted from the effects of the general slow down in oilfield activities.

Operating expenses as a percentage of revenues increased to 92% in the fourth quarter of 2007 from 90% in the fourth quarter of 2006 due to: the effects of the 34% quarter over quarter increase in feedstock costs caused by the increase in crude oil prices; the increase in energy marketing activities; the effects of the oil and gas producers overall focus on reducing service costs which affected the Company's ability to reflect underlying product values; the unavailability of the flowback facility throughout most of the fourth quarter of 2007 due to the repair of damages caused by the fire at the facility in August 2007; and, the shut-down of the Sundre fractionation facility for all of December 2007 in order to prepare the plant site for the installation of the new heaters.

General and administrative expenses were relatively unchanged for the comparative fourth quarters at $1,074,000 in 2007 compared to $1,023,000 in 2006. Depreciation expense increased by $100,000 to $633,000 in the fourth quarter of 2007 from $533,000 in the same period last year due to the increase in assets purchased and placed into service throughout 2007.

For the three months ended December 31, 2007 the Company reported net earnings of $643,000 compared to net earnings of $373,000 in the same period last year. The increase in net earnings in the fourth quarter of 2007 resulted from the reduction in future tax rates resulting from recent substantively enacted changes in the Canadian Federal tax rates over the next five years.

EBITDA (refer to "Use of Non-GAAP Measures") for the three months ended December 31, 2007 decreased by $615,000, or 40%, to $920,000 from $1,535,000 in the comparative quarter last year. The reduction in EBITDA for the comparative quarters resulted from the reduction in the Company's earnings.

Cash provided by operations for the three months ended December 31, 2007 totaled $1,117,000 compared to $1,515,000 for the three months ended December 31, 2006. Capital expenditures in the fourth quarter of 2007 totaled $3,591,000 compared to $2,227,000 in the same period last year. Capital expenditures in the fourth quarter of 2007 were directed to the desalter and blend facility projects in Slave Lake, purchase of the bi-directional pipeline connection and the direct fired heater project for the Sundre plant.

Trends and Outlook

Over the past months, we have directed significant resources to make the necessary infrastructure and plant optimization improvements focused on aligning our operations to the achievement of our strategic goals.

In Slave Lake, the desalter has been installed at the refinery and we anticipate that commissioning will be completed prior to the end of the first quarter of 2008. The desalter will provide the benefit of reducing the flow of impurities found in crude oils through the refinery and thereby reduce overall repair and maintenance costs at this facility. Our new blending operation located at the Slave Lake refinery has been completed and is also in the final stages of commissioning. We anticipate that the blending facility will be pipeline connected prior to the end of the first quarter of 2008. This project will significantly reduce transportation costs associated with the hauling of by-products from this facility and provide enhanced blending opportunities for the Company's energy marketing business segment.

In Sundre we successfully completed the construction and commissioning of the flowback cleaning facility. During 2007, while we encountered some minor start-up issues with this facility, we are pleased with the results achieved in connection with the facilities ability to clean and re-cycle used fracturing fluid ("flowback") and the Sundre refinery's ability to use the clean flowback as a crude oil substitute in the manufacture of a premium fracturing fluid.

In addition, the automation of the entire Sundre facility was completed in 2007 contributing to significantly increase finished product yield. In connection with the installation of the new heaters at the Sundre plant, during commissioning the heaters were unable to meet the required operating parameters and as a result we are still in the process of completing this project. The delay in completing this project affected our ability to fully utilize the refinery for the purpose of processing flowback during January 2008. While the Sundre refinery is currently operating and flowback is being processed through the facility, its production capacity is presently restricted to two of its available three towers. We anticipate the Sundre refinery will be fully operational by mid-year 2008.

Industry expectations for activity levels in the WCSB fall in the range of 13,500 to 15,300 wells to be drilled in 2008, compared to the 19,144 wells drilled in 2007. In addition, average rig utilization rates are expected to be at 35% in 2008 compared to 42% in 2007.

This bearish economic outlook for oilfield activity combined with current industry conditions has created a very aggressive competitive landscape dominated by substantial pressures on pricing. As a result, we anticipate that 2008 will be as challenging as the past year.

However, in 2008 we will be closer to achieving certain of our fundamental business strategies which we anticipate will contribute to improve our overall performance and competitive capabilities in a year where the business environment may be less favourable than in previous years. Notwithstanding, we continue to maintain a strong balance sheet with a focused management team and are well positioned to take advantage of opportunities that may develop.

Critical Accounting Policies

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates that reflect management's estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management's best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results could differ from these estimates.

The following discussion outlines the accounting policies and practices and management's estimates that are critical to determining Enerchem's financial results.

Goodwill Impairment

The Company tests goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of a reporting unit. Determining whether impairment has occurred requires valuation of the respective reporting unit, which is estimated using discounted cash flow methodology. When available and as appropriate, comparative market multiples are used to corroborate discounted cash flow results. In applying this methodology, a number of factors are relied upon, including actual operating results, future business plans, economic projections and market data. During the year, management performed its annual evaluation of the carrying value of goodwill and concluded that the carrying value of its hydrocarbon reporting units was impaired. Information regarding the goodwill impairment is further described in this MD&A and in note 9 of the Notes to the Consolidated Financial Statements for the year ended December 31, 2007.

Property, Plant and Equipment

Property, plant and equipment ("PP&E") are recorded at cost and are depreciated over their estimated useful lives on a declining balance basis, except for the fractionation processing facilities which are depreciated on a straight-line basis. Judgment is involved in determining the useful life of the PP&E and the appropriate annual depreciation rate. The Company's investment in PP&E results in depreciation expense being a significant component of operating expenses of the Company and any misjudgment in determining the useful life and annual depreciation rate could result in a misstatement of depreciation expense.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Company's financial statements. Income tax assets and liabilities, both current and future, are measured according to the income tax legislation that is expected to apply when the asset is realized or when the liability settled. If the Company's interpretations differ from those of tax authorities or judgments with respect to tax losses change, the income tax provision could increase or decrease, potentially significantly, in future periods.

Changes in Accounting Policies and Practices

(a) Effective January 1, 2007 the Company adopted new accounting standards for financial instruments issued by The Accounting Standards Board that comprehensively address when an entity should recognize a financial instrument on its balance sheet, or how it should measure the financial instrument once recognized. These standards have been adopted on a retroactive without restatement basis. The new standards comprise three sections of the CICA Handbook:

(i) CICA Section 3855, "Financial Instruments - Recognition and Measurement", establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. In accordance with this standard, the Company now classifies all financial instruments as either held to maturity, available for sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available for sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations.

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net earnings;
- Accounts receivable and promissory note are classified as loans and receivables and are initially measured at fair value and subsequent period revaluations are recorded at amortized cost; and,
- Accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost.

The estimated fair value of accounts receivable, accounts payable and accrued liabilities and the promissory note approximate their carrying value due to the relatively short-term nature of the instruments. Consequently, as at January 1, 2007 and December 31, 2007, the impact on the consolidated balance sheet of measuring the financial assets and liabilities was nil.

The Company selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or other contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

(ii) CICA Section 3865, "Hedges", provides optional alternative treatments to CICA Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. This new standard replaces AcG-13, "Hedging Relationships", and builds on CICA Section 1651, "Foreign Currency Translation", and specifies how hedge accounting is applied and what disclosures are necessary when CICA Section 3865 is applied. The adoption of this standard did not have an impact on the consolidated financial statements for the year ended December 31, 2007.

(iii) CICA Section 1530, "Comprehensive Income", establishes standards for the reporting and display of comprehensive income. These standards require that an entity present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements. The components of other comprehensive income will include unrealized gains and losses on financial assets classified as available for sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the year ended December 31, 2007. As the Company has no items of other comprehensive income or loss, the net earnings or loss for the periods are equivalent to comprehensive income or loss.

(b) Effective January 1, 2007, the Company adopted CICA Section 1506, "Accounting Changes" which allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of this section had no impact on these consolidated financial statements.

(c) Effective September 30, 2007, the Company adopted the CICA issued Emerging Issues Committee Abstract No. 166, "Accounting Policy Choices for Transaction Costs". This guidance provides additional clarification on accounting policy choices relating to transaction costs under CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Specifically, the accounting policy provides a choice of recognizing transaction costs in net income when incurred versus adding transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to the financial instrument's carrying cost. This guidance allows companies to choose different accounting policies for transaction costs of financial instruments that are not similar. The impact of the adoption of this new section on the consolidated financial statements has not been material.

Future Changes in Accounting Policies

(a) Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, "Capital Disclosures". This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. There will be no impact to the Company's financial statements as this standard only addresses disclosure requirements.

(b) Financial Instruments – Presentation and Disclosure

In October, 2006, the CICA issued Handbook Sections 3862 and 3863 to replace Section 3861, "Financial Instruments – Disclosure and Presentation". This standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. As this standard only addresses presentation and disclosure requirements, there will be no impact to the Company's financial statements.

(c) Inventories

In June 2007, the CICA issued Handbook Section 3031, "Inventories" to harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including the allocation of overheads and other costs to inventory. This standard requires the allocation of fixed production overheads to the costs of conversion to be based on the normal capacity of the production facilities. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Company.

Financial Instruments and Other

Fair Values

The carrying values of cash and cash equivalents, accounts receivable, promissory note, bank indebtedness, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity on these instruments. The fair value of the Company's long-term debt is estimated based on market prices for same or similar instruments and approximates carrying value.

Credit Risk

The Company's Oilfield Services segment's revenues are predominantly from services provided to large oil and gas companies which may result in a significant exposure to one customer or on a combined basis to several individual customers. The Company's Energy Marketing revenues are attributable to several large oil & gas producers and oilfield services companies which account for all of this segment's revenues. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. The Company's management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. Management believes that the Company is exposed to minimal credit risk since the majority of its business is conducted with companies that have a large market presence in the industry and or are large publicly held companies.

Petroleum Prices

The Company is exposed to changes in petroleum and natural gas prices as a result of its use of petroleum feedstock and natural gas for processing at its Sundre and Slave Lake fractionation plants. The potential fluctuations in petroleum and natural gas prices could have a significant impact on the cost of producing the Company's products and its profitability. To mitigate the affects on profitability of upward changes in petroleum prices, the Company implements product price increases to reflect their underlying values. This ability, however, is sensitive to competitive product pressures. In addition, this risk is reduced in part, from time to time, through the use of crude oil and natural gas forward purchase contracts. The contracts are not used for speculative trading purposes. Realized gains or losses on these contracts are reported as adjustments to petroleum and natural gas costs in the related production period.

As at December 31, 2007 and 2006 the Company did not have any outstanding crude oil and natural gas forward purchase contracts.

Interest Rate Risk

The Company manages its interest rate risk on borrowings by utilizing a combination of short term fixed rates through the use of 30 to 90 day Bankers' Acceptance rates and floating rates on debt. As at December 31, 2007 and December 31, 2006, the Company did not have amounts outstanding under its available credit facility with the bank.

Health, Safety and Environmental

The Company has achieved and maintained a Certificate of Recognition which is given to employers who develop health and safety programs to meet standards established by the Petroleum Industry Training Service and Alberta Human Resources and Employment. The Company's Oilfield Services segment has received a Work Safe Alberta 2006 Best Safety Performer Award for exceptional performance in workplace health and safety. This award is presented to only 300 employers of a possible 140,000 employers. The Company has safety and environmental personnel responsible for maintaining and developing the Company's policies and monitoring the Company's operations to ensure compliance with established policies. However, there can be no assurances that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company. The safety and environmental personnel report directly to the President and Chief Executive Officer of the Company.

Competition and Industry Conditions

The capital expenditure programs of oil and gas companies largely affect the services provided by the Company. The magnitude of capital expenditures determines the demand for the Company's services in providing hydrocarbon fluid solutions to the oil and gas production industry. The primary catalysts to high expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced strongly by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company.

There is a strong correlation between drilling activity and demand for the Company's hydrocarbon fracturing and drilling fluids. Industry demand for the Company's fracturing and drilling products is further determined by activity levels that are focused on deep well drilling and applications common to the foothills region and northern Alberta and British Columbia, areas known for deeper drilling. Oil and gas activity in these geographic regions is normally strong during winter months or other times when climatic conditions are favourable. In addition, as our Specialty Fluids and services are sold in highly competitive markets, the Company's revenues and earnings can be affected by changes in competitive prices and new technologies and methods.

Operating Risk and Insurance

Enerchem has an insurance and risk management program in place to protect its assets, operations and employees. The Company's operations are, however, subject to risks inherent in the oil and gas industry such as malfunction and failures and natural disasters with resultant fluid spills, explosions and fires. These risks could expose the Company to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Although the Company has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, its business, results of operations and financial condition could be materially adversely affected.

Disclosure Controls and Internal Controls Over Financial Reporting

Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators requires the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") to certify that they are responsible for establishing and maintaining disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

Enerchem's CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2007 and December 31, 2006 and have concluded that its disclosure controls and procedures were effective for the years then ended.

In addition, an evaluation of the design of internal controls over financial reporting was conducted as of December 31, 2007 and December 31, 2006 by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that internal controls and procedures, defined under Multilateral Instrument 52-109, have been designed to reasonably ensure the reliability of financial reporting and that the preparation of financial statements for external purposes are in accordance with those rules. Management also concluded that during the quarters ended December 31, 2007 and December 31, 2006, no changes were made to internal controls over financial reporting that would have materially affected, or would be reasonably considered to materially affect, these controls.

Management's Responsibility

The management of Enerchem International Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation of all information in the annual report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded and that financial records are properly maintained to provide accurate and reliable financial statements.

The Board of Directors of the Company carries out its responsibility for the financial statements through its Audit Committee. The Audit Committee has and will meet periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements. The Audit Committee reported its findings to the Board of Directors who have approved the consolidated financial statements.

The Company's independent auditors, PricewaterhouseCoopers LLP, Chartered Accountants, have examined the consolidated financial statements whose findings are contained in this annual report

Douglas F. Robinson
President & Chief Executive Officer

Brian M. Zubach, CMA
Chief Financial Officer

Auditors' Report

To the Shareholders of Enerchem International Inc.

We have audited the consolidated balance sheets of Enerchem International Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

Edmonton, Canada
March 17, 2008

Consolidated Balance Sheets

As at December 31	**2007**	2006
	$	$
Assets		
Current assets		
Cash and cash equivalents	**2,711,136**	2,413,522
Accounts receivable	**16,074,755**	16,386,688
Income taxes receivable	**305,609**	-
Inventories	**5,839,545**	9,288,729
Prepaid expenses	**117,184**	197,533
Current portion of future tax asset (note 15)	**73,200**	-
Current portion of promissory note	**-**	61,127
	25,121,429	28,347,599
Other assets (note 7)	**315,582**	1,279,903
Property, plant and equipment (note 8)	**39,488,530**	32,877,523
Goodwill (note 2(f) and note 9)	**-**	6,049,530
	64,925,541	68,554,555
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**9,130,388**	7,258,179
Income taxes payable	**-**	323,709
Current portion of long-term debt (note 11)	**-**	115,585
	9,130,388	7,697,473
Long-term debt (note 11)	**-**	171,477
Asset retirement obligations (note 12)	**204,937**	192,301
Future income taxes (note 15)	**3,746,478**	4,439,707
	13,081,803	12,500,958
Contingent liabilities and commitments (note 17)		
Shareholders' equity		
Share capital (note 13(b))	**29,631,368**	29,675,698
Contributed surplus (note 13(c))	**1,500,569**	1,123,673
Retained earnings	**20,711,801**	25,254,226
	51,843,738	56,053,597
	64,925,541	68,554,555

Signed on behalf of the Board,

LB Phillips

Larry B. Phillips
Director

WD Burch

William D. Burch
Director

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Operations, Comprehensive Loss and Retained Earnings

For the years ended December 31	2007	2006
	$	$
Revenues	**80,299,785**	107,746,214
Expenses		
Operating	**71,974,460**	94,225,612
General and administrative	**4,220,872**	3,609,487
Depreciation and amortization	**2,356,778**	1,678,159
Amortization of pre-operating costs	**86,871**	86,871
Accretion expense (note 12)	**12,636**	12,009
Interest expense (note 14)	**8,116**	70,132
	78,659,733	99,682,270
Earnings from operations before other (expense) income	**1,640,052**	8,063,944
Other (expense) income		
Interest income and other	**235,484**	349,847
Plant tank farm remediation (note 17(b))	**(240,000)**	-
Goodwill impairment (note 2(f) and note 9)	**(6,049,530)**	-
Loss of write-down of investment in foreign operations (note 7(a))	**(58,358)**	(230,000)
(Loss) gain on disposal of property, plant and equipment	**(27,177)**	94,913
	(6,139,581)	214,760
(Loss) earnings before income taxes	**(4,499,529)**	8,278,704
Income taxes (note 15)		
Current	**748,292**	2,542,049
Future	**(766,429)**	(193,921)
	(18,137)	2,348,128
Net (loss) earnings and comprehensive loss for the year	**(4,481,392)**	5,930,576
Retained earnings, beginning of year	**25,254,226**	19,323,650
Common shares repurchased and cancelled (note 13(b))	**(61,033)**	-
Retained earnings, end of year	**20,711,801**	25,254,226
Basic (loss) earnings per share (note 13(e))	**(0.29)**	0.39
Diluted (loss) earnings per share (note 13(e))	**(0.29)**	0.39
Weighted average shares outstanding (note 13(e))		
Basic	**15,292,735**	15,171,836
Diluted	**15,304,467**	15,362,673

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the years ended December 31	2007	2006
	$	$
Operating activities		
Net (loss) earnings from operations	**(4,481,392)**	5,930,576
Items not affecting cash		
Depreciation, amortization and accretion expense	**2,456,285**	1,777,039
Stock based compensation	**376,896**	219,599
Amortization of plant turnaround costs (note 2(j))	**842,531**	796,312
Loss (gain) on disposal of property, plant and equipment	**27,177**	(94,913)
Write-down of investment in foreign operations (note 7(a))	**58,358**	230,000
Goodwill impairment (note 2(f) and note 9)	**6,049,530**	-
Future income taxes	**(766,429)**	(193,921)
	4,562,956	8,664,692
Changes in non-cash components of working capital		
Net change in accounts receivable	**311,933**	8,845,234
Net change in inventories and prepaid expenses	**3,529,533**	137,019
Net change in accounts payable and accrued liabilities	**1,872,209**	(6,599,416)
Net change in income taxes payable	**(629,318)**	(2,086,334)
	5,084,357	296,503
Net cash from operations	**9,647,313**	8,961,195
Investing activities		
Purchase of property, plant and equipment	**(9,118,062)**	(7,445,814)
Acquisition of subsidiary operations (note 6)	**-**	(2,733,000)
Cash acquired on acquisition of subsidiary operations	**-**	53,037
Decrease in promissory note	**61,127**	122,413
Proceeds from disposal of property, plant and equipment	**123,100**	545,958
Increase in other assets	**(849,522)**	(920,424)
Proceeds from sale of foreign investment (note 7(a))	**826,083**	-
Net cash used in investing activities	**(8,957,274)**	(10,377,830)
Financing activities		
Issuance of common shares	**103,700**	1,146,730
Decrease in bank indebtedness	**-**	(3,695,148)
Repurchase of common shares under normal course issuer bid (note 13 (b))	**(209,063)**	-
Repayment of long-term debt	**(287,062)**	(4,596,164)
Net cash used in financing activities	**(392,425)**	(7,144,582)
Increase (decrease) in cash and cash equivalents	**297,614**	(8,561,217)
Cash and cash equivalents - beginning of year	**2,413,522**	10,974,739
Cash and cash equivalents - end of year	**2,711,136**	2,413,522

Supplementary information (note 16)

The accompanying notes are an integral part of these consolidated financial statements

Notes to Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

1. Nature of Operations

Enerchem International Inc. ("Enerchem" or "Company") is a manufacturer of hydrocarbon drilling and fracturing fluids, designed to provide cost effective solutions to the upstream oil and gas industry, and specialty solvents which are designed to help resolve production and processing problems encountered by downstream producers. The Company also provides energy marketing services and, through its wholly-owned subsidiary company, Millard Trucking Ltd. ("Millard"), provides fluid transportation and other related oilfield services. The Company's common shares trade on the Toronto Stock Exchange under the symbol "ECH".

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements of Enerchem are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. In the opinion of management, all adjustments which are of a normal and recurring nature and necessary for a fair presentation of the balance sheets, results of operations and comprehensive loss and cash flows of these annual statements, have been included.

These consolidated financial statements include the accounts of the parent company and its wholly owned subsidiary Millard. The results of Millard are included in the Company's consolidated financial statements commencing at the date of acquisition on May 1, 2006. All significant inter-company balances and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and short-term interest bearing securities with maturities of less than three months.

(d) Inventories

Inventories are carried at the lower of average cost and estimated net realizable value. For finished goods inventory, cost includes direct labour and an allocation of overhead that can be attributed to production.

The Company allocates feedstock costs to its products and by-products that are produced simultaneously in the same processing operation through the relative sales value method. Under this method, joint product costs are allocated based on each product's percentage of the total sales value of all products produced. This method results in the same gross profit percentage for each joint or common product produced. Under this method revenues from the sale of the Company's by-products are recorded as revenue with the corresponding cost of by-products sold, as determined under the relative sales value method, recorded as a cost of sales.

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over their estimated useful lives at the following annual rates:

Buildings and blend plant facilities	5% to 20% declining balance and Straight-line method (described below)
Laboratory equipment	10% declining balance
Oilfield equipment	10% declining balance
Fractionation processing facilities	Straight-line method (described below)

2. Summary of Significant Accounting Policies (continued)

(e) Property, Plant and Equipment (continued)

Leasehold improvements	10% to 20% declining balance
Automotive equipment	30% declining balance
Oilfield trailers	10% declining balance
Office, computer equipment and software	20% to 100% declining balance

Buildings and blend plant facilities includes the Company's flowback cleaning facility which is depreciated on a straight-line basis over the plants expected useful life of 20 years. A salvage value of $300,000 has been established for the flowback facility. The Company depreciates its fractionation processing facilities on a straight-line basis over the plants' expected useful lives which range from 29 to 37 years. The Company has also established estimated salvage values for these facilities based on accepted industry standards. A salvage value of $750,000 has been established for the Slave Lake facility and $250,000 has been established for the Sundre facility.

(f) Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net identifiable assets acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if changes in circumstances or events indicate a potential impairment. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. In the second step, the fair value of goodwill is compared to its carrying amount, with an impairment loss recognized when the carrying value of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill. Management has performed its annual evaluation of the carrying value of goodwill and concluded that the goodwill of its hydrocarbon reporting unit was impaired. Information regarding the goodwill impairment is further described in note 9.

(g) Investment in Foreign Operations

The Company's investment in foreign operations is recorded at cost unless there is a decline in value that is other than temporary. Earnings from this investment will be recognized only to the extent received or receivable.

(h) Future Income Taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in periods that the temporary differences are expected to reverse. The effect on future income tax liabilities and assets of a change in the tax rate is recognized in income in the period that the change occurs.

(i) Revenue Recognition

Revenues associated with sales of the Company's hydrocarbon fluids are recorded in the period in which the fluids are delivered to the customer, the customer has taken title, assumed the risks and rewards of ownership, amounts are known and collection is reasonably assured. Revenues associated with the services provided by Millard are recognized when its services have been provided to and accepted by the customer and collectibility is reasonably assured.

(j) Turnaround Maintenance Costs

The Company has a scheduled turnaround maintenance program for its fractionation plants which requires the shutdown of its facilities for significant overhaul and refurbishment. The Company expects to execute its scheduled turnaround program during the second quarter of each year. Costs of major fractionation plant maintenance are charged to operations over a one year period. At December 31, 2007 unamortized turnaround costs in the amount of $307,623 (December 31, 2006 - $297,631) are included in other assets. For the year ended December 31, 2007, $842,531 (December 31, 2006 - $796,312) of turnaround costs were amortized and included in operating expenses. Normal repairs and maintenance to the fractionation plants are expensed as incurred.

2. Summary of Significant Accounting Policies (continued)

(k) Earnings Per Share

Basic earnings per common share are calculated based on the average number of common shares outstanding during the year. Diluted earnings per share are calculated based on the treasury stock method which assumes that any proceeds from the exercise of in the money stock options would be used to purchase the Company's common shares at the average market price during the year. The computation of diluted earnings per share is similar to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options, if dilutive.

(l) Stock Based Compensation

Awards of stock options are accounted for in accordance with the fair value method of accounting for stock based compensation. Under the fair value method, compensation expense equal to the fair value of stock options granted is recorded in the statement of operations over the vesting period. The Company's stock based compensation plans are described in note 13 (d).

(m) Pre-Operating Costs

Pre-operating costs incurred during the start-up of the Company's fractionation plant in Slave Lake, Alberta were capitalized until the plant was capable of consistently providing its intended commercial service. These costs are being amortized over a period of five years which commenced on January 1, 2003.

(n) Incentive Plan for Senior Management

The Company implemented an incentive program for designated senior management employees to reward their efforts in achieving the Company's performance objectives. The term of the plan was for two years ending December 31, 2006. The incentive program provided for a bonus payment based on the amount by which the Company's common share price, based on a weighted average trading price, exceeded $5.00 per share as of December 31, 2005 and 2006. During 2006 and 2005, the Company's common share performance targets were not achieved, and as a result, the Company did not incur or accrue incentive payments under the plan. Subsequent to December 31, 2006, the plan was not renewed.

(o) Asset Retirement Obligations

Obligations associated with the retirement of tangible long-lived assets and associated retirement costs are recognized in the period in which a reasonable estimate of fair value can be made by recording a liability at a discounted fair value for the future abandonment and restoration associated with the properties. The fair value of the liability is capitalized as part of the cost of the related asset and amortized to expense over its useful life. The liability accretes until the date of expected settlement of the retirement obligation. The related accretion expense is recognized in the statement of operations. The provision is revised for any changes to timing related to cash flow or undiscounted abandonment costs. Actual expenditures incurred for the purpose of site restoration are charged to the asset retirement obligations to the extent that the liability exists on the balance sheet. Differences between the actual costs incurred and the fair value of the liability recorded are recognized to earnings in the period incurred.

(p) Conditional Asset Retirement Obligations

Effective April 1, 2006, the Company adopted the recommendations of the CICA EIC 159, "Conditional Asset Retirement Obligations". In accordance with these recommendations, legal obligations to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may not be within the control of the Company should be recorded at fair value as soon as fair value can be reasonably estimated. In situations where the fair value of a conditional asset retirement obligation cannot be reasonably estimated, that fact and reasons are to be disclosed. The recommendations of EIC 159 were effective for interim and annual reporting periods after March 31, 2006 and were applied retroactively, with restatement of all prior periods.

The Company determined that it has no conditional asset retirement obligations at December 31, 2007 and 2006.

(q) Impairment of Long-Lived Assets

The Company tests long-lived assets when events or changes in circumstances occur which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

2. Summary of Significant Accounting Policies (continued)

(r) Accounting by a Vendor for Consideration Given to a Customer

Effective October 1, 2006, the Company adopted the recommendations of the CICA EIC 156, "Accounting by a Vendor for Consideration Given to a Customer", which provides guidance on the accounting treatment and classification of sales incentives or other consideration that are offered by a vendor to direct or indirect customers. The guideline requires that any sales incentives or other consideration provided to a customer should be recorded as a reduction of revenue or, when certain conditions are met, as a sales operating expense. The Company provides certain customers with sales incentives that are based on their achieving Company defined purchase quotas.

3. Changes in Accounting Policies

(a) Effective January 1, 2007 the Company adopted new accounting standards for financial instruments issued by The Accounting Standards Board that comprehensively address when an entity should recognize a financial instrument on its balance sheet, or how it should measure the financial instrument once recognized. These standards have been adopted on a retroactive without restatement basis. The new standards comprise three sections of the CICA Handbook:

(i) CICA Section 3855, "Financial Instruments - Recognition and Measurement", establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. In accordance with this standard, the Company now classifies all financial instruments as either held to maturity, available for sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available for sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations.

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net earnings;
- Accounts receivable and promissory note are classified as loans and receivables and are initially measured at fair value and subsequent period revaluations are recorded at amortized cost; and,
- Accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost.

The estimated fair value of accounts receivable, accounts payable and accrued liabilities and the promissory note approximate their carrying value due to the relatively short-term nature of the instruments. Consequently, as at January 1, 2007 and December 31, 2007, the impact on the consolidated balance sheet of measuring the financial assets and liabilities was nil.

The Company selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or other contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

(ii) CICA Section 3865, "Hedges", provides optional alternative treatments to CICA Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. This new standard replaces AcG-13, "Hedging Relationships", and builds on CICA Section 1651, "Foreign Currency Translation", and specifies how hedge accounting is applied and what disclosures are necessary when CICA Section 3865 is applied. The adoption of this standard did not have an impact on the consolidated financial statements for the year ended December 31, 2007.

3. Changes in Accounting Policies (continued)

(iii) CICA Section 1530, "Comprehensive Income", establishes standards for the reporting and display of comprehensive income. These standards require that an entity present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements. The components of other comprehensive income will include unrealized gains and losses on financial assets classified as Available for sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the year ended December 31, 2007. As the Company has no items of other comprehensive income or loss, the net earnings or loss for the periods are equivalent to comprehensive income or loss.

(b) Effective January 1, 2007, the Company adopted CICA Section 1506, "Accounting Changes" which allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of this section had no impact on these consolidated financial statements.

(c) Effective September 30, 2007, the Company adopted the CICA issued Emerging Issues Committee Abstract No. 166, "Accounting Policy Choices for Transaction Costs". This guidance provides additional clarification on accounting policy choices relating to transaction costs under CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Specifically, the accounting policy provides a choice of recognizing transaction costs in net income when incurred versus adding transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to the financial instrument's carrying cost. This guidance allows companies to choose different accounting policies for transaction costs of financial instruments that are not similar. The impact of the adoption of this new section on the consolidated financial statements has not been material.

4. Recent Canadian Accounting Pronouncements Not Yet Adopted

(a) Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, "Capital Disclosures". This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. There will be no impact to the Company's financial statements as this standard only addresses disclosure requirements.

(b) Financial Instruments – Presentation and Disclosure

In October, 2006, the CICA issued Handbook Sections 3862 and 3863 to replace Section 3861, "Financial Instruments – Disclosure and Presentation". This standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. As this standard only addresses presentation and disclosure requirements, there will be no impact to the Company's financial statements.

(c) Inventories

In June 2007, the CICA issued Handbook Section 3031, "Inventories" to harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including the allocation of overheads and other costs to inventory. This standard requires the allocation of fixed production overheads to the costs of conversion to be based on the normal capacity of the production facilities. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.

4. Recent Canadian Accounting Pronouncements Not Yet Adopted
(continued)

(c) Inventories (continued)

The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Company. The Company is evaluating the impact of this standard, which has to be addressed in the March 31, 2008 quarterly financial statements.

5. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

(a) Financial Risk Management

The Company's activities are exposed to a variety of financial risks: price risk, credit risk, liquidity risk and cash flow risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

(b) Price Risk

There are three types of price risk: currency risk, interest rate risk and market risk.

(i) Currency Risk: Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk.

(ii) Interest Rate Risk: The Company has a credit facility with a Canadian chartered bank which when utilized by the Company provides loans that are subject to interest rate fluctuation. The Company did not have loans outstanding with the bank at December 31, 2007. The Company manages its interest risk on borrowings by utilizing a combination of short term fixed rates through the use of 30 to 90 day Bankers' Acceptance instruments and floating rates on debt.

(iii) Market Risk: The Company's exposure to financial market risk arises from changes in petroleum and natural gas prices as a result of its use of petroleum feedstock and natural gas for processing at its Sundre and Slave Lake fractionation plants. The potential fluctuations in petroleum and natural gas prices could have a significant impact on the cost of producing its products and the profitability of the Company. This risk is reduced in part, from time to time, through the use of crude oil and natural gas forward purchase contracts. The contracts are not used for speculative trading purposes. Realized gains or losses on these contracts are reported as adjustments to petroleum and natural gas costs in the related production period.

The Company did not have any outstanding crude oil and natural gas forward purchase contracts as at December 31, 2007 or December 31, 2006.

(c) Credit Risk

The Company is exposed to credit risk through its cash and cash equivalents and accounts receivable. The Company has deposited the cash and cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote. The Company has accounts receivable from customers in the oil and gas industry and risk is mitigated due to: the Company's diverse customer base; conducting a majority of its business with large companies in the industry; following a program of credit evaluation; and, by limiting the amount of customer credit where deemed necessary.

(d) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the dynamic nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available.

(e) Cash Flow Risk

As the Company has no significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

5. Financial Instruments (continued)

(f) Fair Value

The fair values of cash and cash equivalents, accounts receivable, promissory note and accounts payable and accrued liabilities approximate their carrying values due to the relatively short periods to maturity of these instruments. The fair value of the Company's long term debt is estimated based on market prices for same or similar instruments and approximates carrying value.

6. Acquisition

On May 1, 2006, the Company acquired all of the outstanding common shares of Millard Trucking Ltd. and J.D.M. Trucking Ltd. ("Millard") for an aggregate purchase price of $3,265,000.

Millard is a Sundre, Alberta based company involved in providing transportation services to the oil and gas industry. The operations of Millard Trucking Ltd. and J.D.M. Trucking Ltd. were amalgamated effective May 12, 2006 and have been continued under the name of Millard Trucking Ltd., a wholly owned subsidiary of Enerchem. The results from operations of Millard are included in the Transportation Services segment.

This acquisition has been accounted for by the purchase method and the results of operations have been included in these consolidated financial statements from the date of acquisition. The cost of the purchase has been allocated to the acquired assets based on their estimated fair values at the date of the acquisition. Details of the acquisition are as follows:

As at May 1, 2006

	$
Current assets	2,707,614
Property and equipment	4,521,000
Total assets acquired	7,228,614
Current liabilities	2,421,578
Long-term debt	848,408
Future income taxes	693,628
Total liabilities assumed	3,963,614
Net assets acquired	3,265,000
The consideration was by way of:	
Cash	2,733,000
100,000 common shares	532,000
	3,265,000

The value of the 100,000 common shares issued was determined based on the simple average of the closing prices of Enerchem's common shares on the Toronto Stock Exchange for the period near the date of acquisition.

7. Other Assets

	December 31, 2007	December 31, 2006
	$	$
Investments - foreign operations	**-**	1,114,442
Pre-operating costs	**-**	86,871
Deferred charges	**307,623**	297,631
Other	**7,959**	10,959
	315,582	1,509,903
Less: Write down of investments - foreign operations	**-**	230,000
	315,582	1,279,903

(a) Investments - Foreign Operations

Investments - foreign operations represented the Company's investment in an Egyptian company with operations in Egypt. During fiscal 1996, the Company entered into an agreement to construct a blend plant in Egypt with Blend Oil Services & Supply. This agreement led to the incorporation of the Egyptian Canadian Company for Chemicals Industries - F.Z. ("ECC"), operating in the free zone area of Alexandria, Egypt. The Company invested $750,000 U.S. ($1,114,442 Cdn.) to maintain its 25% interest in ECC. The Company accounted for its investment in ECC on the cost basis as it did not exercise significant influence.

7. Other Assets (continued)

(a) Investments - Foreign Operations (continued)

During the second quarter of 2007, the Company sold its 25% interest in ECC for total proceeds of $750,000 U.S., less transaction fees of $2,278 U.S., ($826,083 Cdn.) to a privately held Egyptian company based in Cairo, Egypt. During 2007, the Company recorded a $58,358 (December 31, 2006 - $230,000) write down in respect of the carrying value of its Egyptian investment. This sale completed the disposition of the Company's investment in the Egyptian company.

(b) Pre – Operating Costs

Pre–operating costs represent the costs incurred during the start-up of the Company's Slave Lake fractionation plant. The pre-operating period ended January 1, 2003 and the costs are being amortized over a period of five years. At December 31, 2007 accumulated amortization of pre-operating costs is $434,355 (December 31, 2006 - $347,484), and the costs have been completely amortized.

(c) Deferred Charges

Deferred charges represent the costs incurred for scheduled turnaround maintenance programs for the Company's fractionation plants. The Company's turnaround maintenance program is described in note 2(j).

8. Property, Plant and Equipment

As at December 31, 2007	Cost	Accumulated Depreciation	Net Book Value
	$	$	$
Land	**674,608**	**-**	**674,608**
Buildings and blend plant facilities	**6,199,408**	**783,885**	**5,415,523**
Laboratory equipment	**213,608**	**29,984**	**183,624**
Oilfield equipment	**455,003**	**111,656**	**343,347**
Fractionation processing facilities	**34,033,979**	**5,614,930**	**28,419,049**
Leasehold improvements	**104,512**	**30,130**	**74,382**
Automotive equipment	**4,583,200**	**2,041,091**	**2,542,109**
Oilfield trailers	**1,956,894**	**285,386**	**1,671,508**
Office, computer equipment & software	**450,212**	**285,832**	**164,380**
	48,671,424	**9,182,894**	**39,488,530**

As at December 31, 2006	Cost	Accumulated Depreciation	Net Book Value
	$	$	$
Land	674,608	-	674,608
Buildings and blend plant facilities	4,175,862	499,629	3,676,233
Laboratory equipment	74,752	16,618	58,134
Oilfield equipment	235,419	33,580	201,839
Fractionation processing facilities	28,488,110	4,803,336	23,684,774
Leasehold improvements	117,104	22,141	94,963
Automotive equipment	3,786,582	1,148,423	2,638,159
Oilfield trailers	1,801,819	112,559	1,689,260
Office, computer equipment & software	388,501	228,948	159,553
	39,742,757	6,865,234	32,877,523

Buildings and blend plant facilities includes $1,448,916 (December 31, 2006 - $1,971,243) of costs associated with the construction of the Company's blend facility pipeline connection in Slave Lake. Fractionation processing facilities includes $2,528,533 (December 31, 2006 - $97,306) of costs associated with projects under construction at the Slave Lake fractionation plant. Costs associated with these projects have not been depreciated as they have not yet been completed and put in to use.

9. Goodwill

	December 31, 2007	December 31, 2006
	$	$
Balance - beginning of year	**6,049,530**	6,049,530
Goodwill impairment	**(6,049,530)**	-
Balance - end of year	**-**	6,049,530

As at September 30, 2007, management performed its annual evaluation of the carrying value of goodwill and concluded that the goodwill of its hydrocarbon reporting unit was impaired. In determining the impairment amount, management considered a number of factors including actual operating results, expectations of oil & gas industry activity levels, current market data and the overall decline in the Company's economic value as reflected by its share price. As a result, the Company recorded an impairment of $6,049,530, representing the entire amount of goodwill that was being carried on its balance sheet. The goodwill impairment has been recorded as a non-cash charge to income in 2007. The goodwill was initially recorded with the acquisition of Trysol Canada Ltd. on March 31, 2001.

10. Operating Lines of Credit and Bank Guarantee Facility

The Company has a $5,500,000 (December 31, 2006 - $5,500,000) revolving operating line and a $10,000,000 (December 31, 2006 - $10,000,000) bank guarantee facility with a Canadian chartered bank. The guarantee facility bears a fee of 1.35% per annum at the time of issuance of each bank guarantee. Advances under the operating line are available at either of the bank's prime rate plus 0.40%, Bankers' Acceptance rates plus 1.65%, or a combination thereof, and are repayable on demand. At December 31, 2007, the Company has outstanding bank guarantees in the amount of $2,632,500 (December 31, 2006 - $800,000) in respect of the purchase of petroleum feedstock.

These revolving operating loans are restricted to specific margin requirements and the Company has pledged an assignment of accounts receivable and inventories, a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and a floating charge over all of the Company's present and after acquired real property as collateral on its demand revolving operating loans, bank guarantees and long-term debt with the bank.

11. Long-Term Debt

	December 31, 2007	December 31, 2006
	$	$
Finance contract loans bearing interest at fixed rates of 0% per annum on service vehicles to 6.25% per annum on heavy commercial vehicles, repayable in blended monthly payments of $10,662 and mature at varying dates from April, 2008 to August, 2010, specific equipment with a net book value of $308,802 have been pledged as collateral.	**-**	287,062
Less: current portion of long-term debt	**-**	115,585
	-	171,477

The Company has an $8,000,000 (December 31, 2006 - $8,000,000) demand revolving credit facility with a Canadian chartered bank, that bears interest at the bank's prime rate plus 0.90%, to assist in financing projects undertaken at the Company's facilities and equipment purchases. The bank's prime rate at December 31, 2007 was 6.00% (December 31, 2006 - 6.00%). During 2007, all of the Company's projects and equipment purchases were funded through its cash flow from operations. During 2006, the Company repaid demand non-revolving loans in the amount of $3,047,764, which were repayable in blended monthly payments of $113,526 and had maturity dates varying from May 2006 to May 2020.

While the bank's credit facility is demand in nature, repayment of the debt in advance of the agreed terms is not at the bank's discretion provided the Company is not in default of its obligations, covenants and other conditions to the facility that will materially affect the Company's ability to fulfill its obligations. The Company was in compliance with these covenants at December 31, 2007 and 2006.

11. Long-Term Debt (continued)

Finance contract loans represent debt obligations assumed by the Company with the acquisition of Millard. During 2007, the Company repaid debt obligations of Millard totaling $287,062 (December 31, 2006 - $1,548,000).

12. Asset Retirement Obligations

The Company has recorded the current fair value of its expected cleanup and site closure costs associated with the Slave Lake and Sundre plant locations. The analysis of the asset retirement obligation (ARO) is as follows:

	December 31, 2007	December 31, 2006
	$	$
Asset retirement obligations - beginning of year	**192,301**	180,292
Accretion expense	**12,636**	12,009
Asset retirement obligations - end of year	**204,937**	192,301

With the adoption of this standard at December 31, 2004, $137,261 has been included in property, plant and equipment. Included in depreciation and amortization of plant and equipment for the amortization of the ARO is a charge of $3,221 (December 31, 2006 - $3,221) for the year ended December 31, 2007.

The following assumptions were used to estimate the fair values of the obligation on the date the obligation was incurred:

Total undiscounted amount of the estimated cash flows	$1,186,000
Expected timing of payment of cash flows	2033 and 2041
Credit adjusted risk free rate	6.49% and 6.87%

The estimate of the total liability for future asset retirement obligations is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in estimate, when applicable.

13. Share Capital and Contributed Surplus

(a) Authorized -

20,000,000 non-voting, preferred shares, rights to be determined upon issue
Unlimited number of common shares

(b) Issued -

Common	**December 31, 2007**		December 31, 2006	
	#	**$**	#	$
Balance - beginning of year	**15,295,307**	**29,675,698**	14,820,807	27,973,843
Issue of shares for cash upon exercise of stock options	**34,000**	**103,700**	374,500	1,146,730
Compensation expense relating to stock options exercised	**-**	**-**	-	23,125
Issue of shares upon acquisition of Millard	**-**	**-**	100,000	532,000
Redemption pursuant to normal course issuer bid	**(76,200)**	**(148,030)**	-	-
Balance - end of year	**15,253,107**	**29,631,368**	15,295,307	29,675,698

On June 27, 2007, the Company announced a normal course issuer bid to purchase up to 766,465 of its issued and outstanding common shares at the market price at the time of acquisition beginning on July 3, 2007 and ending on July 2, 2008, or such earlier time as the bid is completed or terminated by the Company. During 2007, the Company purchased 76,200 of its common shares at an average price of $2.74, including transaction fees, which have been cancelled and returned to treasury. The cost of common shares purchased totaled $209,063 of which $148,030 was recorded as a charge against share capital at the average carrying value of the Company's issued and outstanding common shares, with the balance of $61,033 charged against retained earnings.

13. Share Capital and Contributed Surplus (continued)

(c) Contributed Surplus

	December 31, 2007	December 31, 2006
	$	$
Balance - beginning of year	**1,123,673**	927,199
Stock based compensation expensed during the period	**376,896**	219,599
Compensation expense relating to stock options exercised	**-**	(23,125)
Balance - end of year	**1,500,569**	1,123,673

(d) Stock Options

The Company has reserved 2,700,000 common shares for issuance pursuant to an approved stock option plan ("Option Plan") granted to directors and employees of the Company. Stock options granted to employees vest over different periods and amounts from the date of grant and expire five years after the date of grant. The exercise price of each option equals the market price of the Company's common shares at the date of grant. A summary of the status of the Company's Option Plan is presented below:

	December 31, 2007 Options	December 31, 2007 Weighted Average Exercise Price	December 31, 2006 Options	December 31, 2006 Weighted Average Exercise Price
	#	$	#	$
Common shares under option - beginning of year	**534,000**	**3.35**	1,026,000	3.35
Share options granted	**100,000**	**3.75**	-	-
Share options cancelled	**-**	**-**	(117,500)	4.21
Share options expired	**(60,000)**	**5.15**	-	-
Share options exercised	**(34,000)**	**3.05**	(374,500)	3.06
Common shares under option - end of year	**540,000**	**3.26**	534,000	3.36
Options exercisable at end of year	**336,667**	**3.18**	302,167	3.60

The following options were outstanding and exercisable under the Option Plan at December 31, 2007:

	Outstanding				Exercisable	
Expiry Date	Options	Exercise Price	Weighted Average Price	Weighted Average Remaining Years of Contractual Life	Options	Weighted Average Exercise Price
	#	$	$		#	$
August 8, 2008	10,000	3.25	3.25	0.6	10,000	3.25
January 20, 2009	100,000	3.40	3.40	1.1	100,000	3.40
January 4, 2010	310,000	3.05	3.05	2.0	206,667	3.05
January 7, 2010	20,000	3.30	3.30	2.0	20,000	3.30
January 2, 2011	100,000	3.75	3.75	3.0	-	-
	540,000	-	3.26	2.0	336,667	3.18

During the year ended December 31, 2007, the Company granted 100,000 stock options (December 31, 2006 – NIL) with an exercise price of $3.75 to an employee of the Company. The options granted in 2007 have a five year term and vest with the employee on January 2, 2008.

13. Share Capital and Contributed Surplus (continued)

(d) Stock Options (continued)

The fair value of the options granted in 2007 has been estimated using the Black-Scholes option pricing model. The assumptions used in the pricing model are as follows:

Risk free interest rate (%)	6.00
Expected life of options (years)	5
Expected volatility (%)	54
Dividend yield (%)	0

The impact of expensing the stock options for the year ended December 31, 2007 was $376,896 (December 31, 2006 - $219,599), with a corresponding increase in contributed surplus.

Subsequent to December 31, 2007, 100,000 options were granted to an employee of the Company at an exercise price of $2.20 per share.

(e) Net Earnings Per Share

Basic earnings per share is calculated using the reported net earnings divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of common shares outstanding recognizing the effect of outstanding stock options and their equivalent using the treasury stock method.

A reconciliation of the denominators used for the computation of basic and diluted earnings per share are as follows:

Weighted average share reconciliation	**December 31, 2007**	December 31, 2006
- Basic	**#**	#
Common shares - opening	**15,295,307**	14,820,807
Weighted average of common shares issued (purchased) during the year	**(2,572)**	351,029
	15,292,735	15,171,836
- Diluted		
Basic weighted average common shares - opening	**15,292,735**	15,171,836
Dilutive effect of stock options and equivalents	**11,732**	190,837
	15,304,467	15,362,673

14. Interest Expense

Interest expense is comprised as follows:

	December 31, 2007	December 31, 2006
	$	$
Interest on bank indebtedness	**-**	10,153
Other interest	**-**	7,477
Interest on long-term debt	**8,116**	52,502
	8,116	70,132

15. Income Taxes

The following table reconciles income taxes from operations calculated at the combined statutory federal and provincial tax rate with the income tax provision in the financial statements.

	December 31, 2007	December 31, 2006
Income taxes based on combined statutory	**$**	$
Canadian federal and provincial tax rate	**(1,445,249)**	2,689,740
Substantively enacted rates	**(655,535)**	(416,077)
Goodwill impairment	**1,943,109**	-
Stock based compensation	**121,059**	71,344
Non-deductible and other	**18,479**	3,121
	(18,137)	2,348,128

15. Income Taxes (continued)

	December 31, 2007	December 31, 2006
	$	$
Cash income taxes paid	1,790,374	4,744,062
Refunds received during the year	(412,764)	(121,423)
Net cash income taxes paid	1,377,610	4,622,639

Significant components of the Company's future tax liabilities (assets) are as follows:

	December 31, 2007	December 31, 2006
	$	$
Prepaid expenses and deferred charges	87,016	95,191
Property, plant and equipment	3,662,577	4,382,848
Other assets	57,245	20,873
Accounts payable and accrued liabilities	(73,200)	-
Asset retirement obligation	(60,360)	(57,775)
Share issuance costs	-	(1,430)
	3,673,278	4,439,707

Comprised of:

	December 31, 2007	December 31, 2006
	$	$
Current asset	(73,200)	-
Long-term liability	3,746,478	4,439,707
Net	3,673,278	4,439,707

16. Supplementary Cash Flow Information

	December 31, 2007	December 31, 2006
	$	$
Cash interest income received	233,496	238,385
Cash interest expense paid	48,191	57,943

17. Contingent Liabilities and Commitments

(a) Contingent Liabilities

In the normal course of business, the Company is party to various claims and legal proceedings. While the final outcome with respect to the claims and legal proceedings pending as at December 31, 2007, cannot be determined with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

(b) Plant Tank Farm Remediation

During the third quarter of 2007, the Company accrued environmental costs of $240,000 related to the clean-up of its tank farm in Sundre, Alberta. The $240,000 is an estimate and the Company is in the process of gathering third party quotations. The Company carries insurance against such risks and anticipates that a portion of the environmental costs will be covered by insurance. The accrual for the clean-up has been reported on the balance sheet under the caption accounts payable and accrued liabilities and the expense has been reported on the statement of operations as plant tank farm remediation.

(c) Construction Commitments

(i) During the second quarter of 2007, the Company entered into an agreement with a third party for the construction of a new heating unit for the Sundre plant in the amount of $745,900. The project, originally scheduled for completion during the third quarter of 2007, is scheduled for completion mid-year 2008.

(ii) During the third quarter of 2007, the Company entered into an agreement with a third party for the construction and assembly of a new crude oil desalter for the Slave Lake plant in the amount of $1,950,000. The project is scheduled for completion during the first quarter of 2008.

(d) Petroleum Feedstock

The Company has entered into contracts of varying terms and quantities for the purchase of petroleum feedstock for processing. These contracts are not speculative.

17. Contingent Liabilities and Commitments (continued)

(e) Letters of Guarantee

At December 31, 2007, the Company had provided a $2,632,500 letter of guarantee, which terminated February 2008, in favour of a supplier for purchases of petroleum feedstock from that company. Letters of guarantee are provided by the Company on an on-going basis and for varying amounts for its petroleum feedstock purchases from suppliers.

(f) Leases

The future minimum lease payments under operating leases amount to $412,172 (December 31, 2006 - $553,457) and for each of the next five years are:

Year	$
2008	254,499
2009	153,939
2010	3,734
2011	-
2012	-

18. Segmented Information

The Company's activities are divided into three distinct business segments: Oilfield Services which represents the manufacture and sale of hydrocarbon products; Energy Marketing which represents the purchasing, gathering and marketing of crude oil for resale to refiners and other customers; and Transportation Services which represents the operations of Millard. All of these business segments operate in one geographic region being the Western Canadian Sedimentary Basin. In the following tables, the elimination of significant inter-segment transactions are reflected under the caption "Eliminations".

December 31, 2007	Oilfield Services	Energy Marketing	Transportation Services	Eliminations	Total
	$	$	$	$	$
Revenues	51,393,842	19,224,667	9,681,276	-	80,299,785
Inter-segment revenues	-	-	4,556,636	(4,556,636)	-
Total revenues	51,393,842	19,224,667	14,237,912	(4,556,636)	80,299,785
Operating expenses	45,143,516	16,103,428	10,727,516	-	71,974,460
Depreciation, amortization and accretion expense	1,279,917	-	1,176,368	-	2,456,285
Interest expense	-	-	8,116	-	8,116
Goodwill impairment	6,049,530	-	-	-	6,049,530
Other expense	70,561	-	19,490	-	90,051
Subtotal	(1,149,682)	3,121,239	2,306,422	(4,556,636)	(278,657)
General and administrative	-	-	-	-	4,220,872
(Loss) earnings from operations before income taxes	(1,149,682)	3,121,239	2,306,422	(4,556,636)	(4,499,529)
Total assets	57,215,981	4,744,887	8,901,277	(5,936,604)	64,925,541
Capital expenditures	6,691,673	1,405,267	1,870,644	-	9,967,584

During 2007, the Energy Marketing segment had sales to one customer accounting for approximately 60% (December 31, 2006 - 59%) of total revenues provided by this segment.

During 2007, the Oilfield Services segment had sales to three customers each accounting for more than 10% of total revenues provided by this segment and which in aggregate had sales accounting for approximately 43% of total revenues by this segment (December 31, 2006 – one customer had sales accounting for more than 10% of total revenues provided by the Oilfield Services segment which approximated 19% of total revenues provided by this segment).

18. Segmented Information (continued)

December 31, 2006	Oilfield Services	Energy Marketing	Transportation Services	Eliminations	Total
	$	$	$	$	$
Revenues	75,667,971	25,423,192	6,655,051	-	107,746,214
Inter-segment revenues	-	-	3,389,781	(3,389,781)	-
Total revenues	75,667,971	25,423,192	10,044,832	(3,389,781)	107,746,214
Operating expenses	65,584,933	21,520,065	7,120,614	-	94,225,612
Depreciation, amortization and accretion expense	1,146,608	-	630,431	-	1,777,039
Interest expense	22,705	-	47,427	-	70,132
Other income	177,310	-	37,450	-	214,760
Subtotal	9,091,035	3,903,127	2,283,810	(3,389,781)	11,888,191
General and administrative	-	-	-	-	3,609,487
Earnings from operations before income taxes	9,091,035	3,903,127	2,283,810	(3,389,781)	8,278,704
Total assets	64,154,259	1,566,217	8,445,711	(5,611,632)	68,554,555
Capital expenditures	7,127,835	-	1,238,403	-	8,366,238
Goodwill	6,049,530	-	-	-	6,049,530

19. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Health, Safety and Environmental

Enerchem places the importance of safety above all other aspects of the Company's business. Enerchem recognizes that its employees represent its most valuable asset and must be provided with the tools and systems necessary to carry out their work in a safe environment.

We have initiated comprehensive polices and procedures to ensure the health and safety of all our employees, contractors, sub-contractors and visitors.

Enerchem holds a Certificate of Recognition ("COR") for all of its business operations. The COR recognizes that our health and safety management systems meet the Standards of Partnerships developed by Alberta Human Resources and Employment. We are proud that our employees have maintained an excellent safety performance record and that all facilities have operated lost-time incident free throughout the year. In recognition of our exceptional performance in workplace health and safety, we received a **Work Safe 2006 Alberta Best Safety Performer Award** which is presented to only 300 employers out of a possible 140,000 employers.

We also have implemented programs and guidelines to minimize our environmental exposures. All environmental laws and regulations are adhered to, including Alberta's Environmental Protection and Enhancement Act, the Canadian Environmental Protection Act, the Transportation of Dangerous Goods Act, and the Environmental Operating Guidelines for the Alberta Petroleum Industry.

Corporate Governance

The Board of Directors and management of the Company consider good corporate governance to be central to the effective operation and success of the Company.

The Board of Directors is responsible for the overall stewardship of the Company and has full power and authority to manage and control the affairs and business of the Company. It establishes the overall policies and standards for the Company. While delegating certain of its authority and responsibilities to its committees and management of the Company, it retains full effective control over the Company and monitors senior management. The directors are kept informed of the Company's operations at meetings of the Board, of its committees and through reports, analyses and discussions with management.

The Board is also responsible for overseeing the formulation by management of long-term strategic, financial and organizational and related objectives. The mandate of the Board also establishes a requirement that it implement structures and procedures to ensure that it functions independently of management, such as the Board's practice of conducting in-camera sessions as part of each regularly scheduled meeting.

Composition of the Board of Directors and Committees

Enerchem's Board of Directors comprises seven members, five of whom qualify as unrelated directors by virtue of their independence from management or any interest, business or other relationship that could materially interfere with the directors' ability to act in the best interests of the Company and all Audit Committee members qualify as independent within the meaning of Multilateral Instrument 52-110 – "Audit Committees". It believes that such number of directors is large enough to allow the directors to benefit from a wide variety of ideas and viewpoints without compromising communication among the directors, and between the directors and management.

The Board of Directors has four committees to which the Board has delegated certain of its authority and responsibilities, as well as certain advisory functions and power to make recommendations and reports to the Board. The standing committees of the Board are: the Audit Committee; the Compensation Committee; the Environmental Committee; and the Strategic Planning and Priorities Committee. The full Board has regularly scheduled meetings four times per year and to ensure that the Board is fully informed of the strategic issues and critical risks facing the Company, the Board has one meeting each year devoted to the review and approval of the Company's strategic plan. The Audit Committee meets four times per year. The Compensation Committee generally meets at least two times per year. The Strategic Planning and Priorities Committee meets on an as required basis and in 2007 met three times. The Board may, from time to time, appoint ad hoc committees to deal with specific issues that arise. No such committees were struck during 2007.

The Audit Committee meets on a regular basis with the Chief Financial Officer of the Company and the independent auditors to, among other things, review and inquire into: (a) matters affecting financial reporting; (b) the adequacy of internal controls and procedures for financial reporting and accounting; (c) the audit procedures and audit plans; and (d) the financial and business risks or exposures of the Company and the steps that management has taken to control such risks. It also recommends to the Board of Directors the external auditors to be appointed and their remuneration. The Audit Committee annually reviews the independence of the external auditors.

The Audit Committee reviews and recommends to the Board, for its approval: (a) the Company's interim unaudited financial statements and Management's Discussion and Analysis related thereto; (b) the Company's audited annual financial statements and Management's Discussion and Analysis related thereto; (c) prospectuses and other offering memoranda, if applicable; and (d) the annual and interim earnings press releases and other public disclosure documents containing audited or unaudited financial information required by regulatory authorities.

The responsibilities of the Audit Committee, including those responsibilities described above, are reviewed by the Board of Directors annually. All the members of the Audit Committee are financially literate and a majority have accounting or related financial expertise.

The Compensation Committee is responsible for reviewing matters of remuneration for senior executive positions, including that of the President and Chief Executive Officer, and making recommendations to the Board of Directors thereon. It is also responsible for reviewing and making recommendations to the Board for the appointment of persons to senior executive positions, for considering their terms of employment and for succession planning.

The Environmental Committee is responsible for reviewing and making recommendations and reports to the Board of Directors relating to the policies, standards, practices and programs of the Company on matters pertaining to both the environment and occupational health and safety. The committee monitors the Company's performance in relation to its own policies, as well as in relation to applicable legislation pertaining to both the environment and occupational health and safety. It also reviews and reports to the Board of Directors on the Company's state of readiness to respond to crisis situations.

The Company has set up a Strategic Planning and Priorities Committee whose mandate involves considering and advising the Board of Directors on matters of strategic importance to the Company.

Code of Ethics and Business Conduct

The Board has adopted a Code of Business Conduct and Ethics which applies to all directors, officers and employees of the Company. The Code calls for the highest standard of ethical conduct and personal integrity.

Enerchem is committed to maintaining its business in compliance with applicable laws, statutes and regulations. Additional information about our commitment to corporate governance practices are detailed in our 2008 Information Circular which can be found at www.sedar.com.

Directory

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Board of Directors

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Chairman of the Board
Director (2), (4)

Douglas F. Robinson
President and Chief Executive Officer
Director (3), (4)

William D. Burch, FCA
Director (1)

Gordon J. Hoy, P.Eng, MBA, CFA
Director

Kenneth A. Klein, B. Comm.
Director (1), (2)

Kevin M. Maguire, P.Eng., MBA
Director (1), (4)

David F. Potter
Director (1), (2), (4)

Officers

Douglas F. Robinson
President and Chief Executive Officer (3), (4)

Brian M. Zubach, B. Admin., CMA
Chief Financial Officer

J. Barrie Brookman
Vice President, Corporate Development (3)

Member of:

(1) Audit Committee

(2) Compensation Committee

(3) Environmental Committee

(4) Strategic Planning and Priorities Committee

Directory

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Principal Bank

HSBC Bank Canada
Edmonton, Alberta

Auditors

PricewaterhouseCoopers LLP
Edmonton, Alberta

Legal Counsel

Chamberlain Hutchison
Edmonton, Alberta

Stock Exchange Listing

Toronto Stock Exchange: trading symbol "ECH"
United States - Over the Counter 12g-3-2(b)

Notes

Notes

Notes

ENERCHEM
INTERNATIONAL INC.

Shareholder Information

Shareholders may obtain copies of annual and quarterly reports, news releases, product information and other company information by contacting:

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2006 BEST SAFETY PERFORMER
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ALBERTA

Annual General Meeting

The Annual General Meeting of the Shareholders will be held on:

Tuesday May 20, 2008 at 2:00 pm
Executive Royal Inn Leduc - Nisku
Piper Ballroom
8450 Sparrow Drive
Leduc, Alberta

All shareholders are cordially invited to attend.

Enerchem International Inc.

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